



NEWCASTLE MUNICIPALITY

BUDGET POLICY

BUDGET POLICY

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1. PREAMBLE

- 1.1 In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.
- 1.2 In terms of chapter 4, Section 21 (1) the mayor must co-ordinate the processes for preparing the annual budget and budget-related policies.
- 1.3 This policy must be read, analyzed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualization and the operationalization of the budget must be located within the national government's policy framework.

2. OBJECTIVES OF THE POLICY

- 2.1 This policy sets out the budgeting principles and procedures which Newcastle Municipality will follow in preparing each annual budget, as well as the roles and responsibilities of various officials and Office Bearers in the compiling such budget. The policy seeks to give effect to the requirements of the Municipal Finance Management Act, Act 56 of 2003 read with Municipal Budget and Reporting Regulations of 2009 in terms of preparation, approval, implementation and management of the annual budgets.
- 2.2 This policy is intended to ensure:
 - 2.2.1 that there is efficient and effective preparation of reliable budget and forecasts and monitoring of actual results against plans and programmes.
 - 2.2.2 that the municipality keeps records of and is able to report on output delivery according to the performance measures contained in the Integrated

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- Development Plan (IDP) and Service Delivery Budget Implementation Plan (SDBIP) and strategic plan.
- 2.2.3 the Strategic Executive Directors and Treasury and Budget Office have implemented proper monitoring and control of budgets.
 - 2.2.4 that the Mayor exercise proper general political guidance over the fiscal and financial affairs of the municipality
 - 2.2.5 that the council plays an effective oversight role in fiscal and financial affairs of the municipality.

3. SCOPE OF THE POLICY

This policy shall apply to the Council, Executive Committee, Finance Portfolio Committee, Budget Steering Committee, Accounting Officer, Strategic Executive Directors and all officials who have a formal and administrative duty to prepare, manage and control the municipality's budget.

4. APPLICABLE LEGISLATION

- 4.1 Budget process and management is regulated in terms of the Municipal Finance Management Act, Act 56 of 2003 (MFMA):-
 - 4.1.1 Chapter 4 of the MFMA deals with the municipal budgets.
 - 4.1.2 Chapter 7 of the MFMA deals with the responsibilities of the Mayor in relation to budget processes and related matters as well as the fiscal and financial affairs of the municipality.
 - 4.1.3 Chapter 8 of the MFMA deals with the responsibilities of the municipal officials in relation, among others, budgeting processes, revenue and expenditure management and reporting.
 - 4.1.4 Chapter 9 of the MFMA deals with the municipal budget and treasury offices.
- 4.2 Municipal Budget and Reporting Regulations of 2009 which is aimed at securing sound and sustainable management of the budgeting and reporting practices of municipalities by establishing uniform norms and standards and other requirements for ensuring transparency, accountability and appropriate lines of responsibilities in the budgeting and reporting processes within the municipality.

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- 4.3 The Medium Term Revenue and Expenditure Framework guidelines issued by National Treasury from time to time also provide guidance in the budgeting process and management.
- 4.4 The budget circulars and practice notes issued by National Treasury from time to time also provides guidance in the budgeting process and management.
- 4.5 Annual Division of Revenue Act in so far as those chapters dealing with equitable share allocation and all other conditional grants to the municipalities.
- 4.6 Furthermore chapter 5, section 25(1) of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000) states that a municipality shall undertake developmentally oriented planning. It must be a single, inclusive and strategic plan in the form of an Integrated Development Plan. This must form the policy framework and general basis on which the annual budgets must be based.

5. ROLES AND RESPONSIBILITIES

The primary responsibilities and accountabilities in relation to budgeting process and management rest with the Council, Executive Committee, Budget Steering Committee, Mayor, Accounting Officer, Strategic Executive Director for Financial Services, Strategic Executive Directors for other municipal departments, the Director for Budget and Financial Reporting as well as the officials in the Budget Office.

5.1 Role of Council

- 5.1.1 As stipulated in chapter 4, section 16 (1) of the MFMA the council must for each financial year approve an annual budget for the municipality before the start of a financial year. Before approval of the annual budget the council is expected to interrogate the annual budget and also plays an oversight role in budget preparation, implementation, management and reporting.
- 5.1.2 To the extent as required by chapter 4, section 24 (1) & (2) of the MFMA, the council when approving the annual budget, shall ensure full compliance with all subsections under section 24.

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- 5.1.3 When considering the draft annual budget, the council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area.

5.2 Executive Committee

The Executive Committee is responsible for examining of the budget, providing guidance among others on the budgetary process and expenditure management and oversight role.

5.3 Role of Budget Steering Committee

- 5.3.1 The Mayor of the Municipality shall establish a Budget Steering Committee as required by Regulation 4 of the Municipal Budgeting and Reporting Regulations. The steering committee shall consist of the following persons:
- (a) the councilor responsible for financial matters (chairperson of the Finance Portfolio Committee);
 - (b) the Accounting Officer;
 - (c) the Strategic Executive Director for Financial Services Department;
 - (d) Strategic Executive Directors responsible for at least three largest departments in terms of budget allocation in the municipality;
 - (e) Director for Budget Planning, Implementation, Supply Chain Management and Financial Reporting;
 - (f) Manager responsible for the compilation of budget;
 - (g) Director responsible for planning; and
 - (h) Any technical experts in infrastructure.
- 5.3.2 The Municipality may opt to use the Management Committee (MANCO) as Budget Steering Committee as well as IDP Steering Committee.
- 5.3.3 The Budget Steering Committee as stipulated under chapter 2, clause 4(1) of the Municipal Budget and Reporting Regulations must provide technical assistance to the Mayor in discharging the responsibilities set out in sections 53 and 54 of the MFMA.

5.4 Role of Mayor

- 5.4.1 As provided in Section 21(1) of the MFMA, the Mayor is responsible for:

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- 5.4.1.1 Coordinating the process for preparing the annual budget and for reviewing the Integrated Development Plan (“IDP”) and budget related-policies;
 - 5.4.1.2 At least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines, as contemplated in section 21(1) (b) of the MFMA.
- 5.4.2 In so far as provided in Section 21(2) of the MFMA, for purposes of preparing the budget, the Mayor shall comply with all subsections of the above section.
- 5.4.3 Pursuant to Section 52 of the MFMA the mayor must:
- 5.4.3.1 provide general political guidance over the fiscal and financial affairs of the municipality, and present the budget to the community of Newcastle and consider of their input.
 - 5.4.3.2 In providing such general political guidance monitor and to the extent provided in the MFMA, oversee the exercise of responsibilities assigned in terms of the MFMA to the accounting officer and the Strategic Executive Director: Budget and Treasury Office, but may not interfere in the exercise of those responsibilities;
 - 5.4.3.3 take all reasonable steps to ensure that the municipality performs its constitutional and statutory functions within the limits of the municipality's approved budget;
 - 5.4.3.4 within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality; and
 - 5.4.3.5 comply with all other subsections of under this section of the MFMA.
- 5.4.4 In so far as provided in Section 53 of the MFMA, for purposes of the budget process and related matters, the Mayor shall comply with all subsections of the above section as per the MFMA.
- 5.4.5 As required by Section 58 of the MFMA, the Mayor shall exercise his/her powers and functions assigned by the MFMA in consultation with the executive committee.

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5.5 Role of Accounting Officer

- 5.5.1 The Accounting Officer shall be responsible for the following functions in terms of Section 68 of the MFMA:
 - 5.5.1.1 Assisting the Mayor in performing the budgetary functions assigned to the Mayor in terms of chapter 4 and 7 of the MFMA; and
 - 5.5.1.2 Providing the Mayor with the administrative support, resources and information necessary for the performance of those functions.
- 5.5.2 The Accounting officer shall ensure that all heads of departments provide the inputs required by the Strategic Executive Director: Budget and Treasury Office for the purpose of preparing the budget, and to that end, each Strategic Executive Director shall prepare and submit to the Strategic Executive Director: Budget and Treasury Office by 28 February of each year a draft budget for his or her department; provided that nothing contained in this section shall derogate from the responsibility of the Strategic Executive Director for Financial Services of preparing the municipal budget as provided for in subsection 5.6.1 below.
- 5.5.3 The accounting officer shall comply with all requirements of the Sections 69, 70, 71, 72, 73, 74, 75 and 76 of the MFMA and ensuring that the operations of the municipal council are achieved within the approved budget and financial targets; and allocation of funds within the departments.

5.6 Role of Strategic Executive Director: Budget and Treasury Office

- 5.6.1 Without derogating in any way from the legal responsibilities of the Mayor and Accounting Officer, the Strategic Executive Director: Budget and Treasury Office shall be responsible for preparing the draft budget of the municipality as a line function responsibility.
- 5.6.2 The Accounting Officer shall delegate in terms of Section 79 of the MFMA to the Strategic Executive Director: Budget and Treasury Office all such powers as may be necessary him or her to perform the above mentioned function.
- 5.6.3 The Strategic Executive Director: Budget and Treasury Office shall ensure that the annual and adjustments budgets comply with the requirements of the National

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Treasury, reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.

- 5.6.4 The Strategic Executive Director: Budget and Treasury Office shall, with the approval of the mayor and the municipal manager, and considering the municipality's current financial performance determine the recommended aggregate growth factor(s) using the National Treasury Guidelines.

- 5.6.5 The Strategic Executive Director: Budget and Treasury Office is responsible for:
 - 5.6.5.1 Budget process management.
 - 5.6.5.2 Advice to the Accounting Officer, Mayor, Executive Committee, Finance Portfolio Committee and Strategic Executive Directors for all departments on budget process and expenditure management matters.
 - 5.6.5.3 Provide guidance and support to the Director: Budget and Financial Reporting as well as the officials in the division dealing with the budget process.
 - 5.6.5.4 Overall management of the provision of monthly financial performance reports to the Strategic Executive Directors by 5th working day of the following month.
 - 5.6.5.5 Overall management and coordinating budget estimates.
 - 5.6.5.6 Ensuring overall integrity of information in the financial system;
 - 5.6.5.7 Explanation of reasons for significant trends and changes in budget amounts.

5.7 Role of Strategic Executive Directors

- 5.7.1 The Strategic Executive Directors are responsible for:
 - 5.7.1.1 The provision of their budget requirements within the timelines as set out by the Accounting Officer and the Strategic Executive Director: Budget and Treasury Office.
 - 5.7.1.2 Monthly review of expenditure against budget.
 - 5.7.1.3 Submission of variance explanations to the Strategic Executive Director: Budget and Treasury Office Services within five working days of receipt of monthly financial performance reports and expenditure, which is greater or

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- less than five percent from budget for Goods and Services and related costs;
- 5.7.1.4 Advising the Strategic Executive Director: Budget and Treasury Office of significant accruals two working days before month end;

5.8 Role of Director: Budget and Financial Reporting

- 5.8.1 The Director: Budget and Financial Reporting as well as the officials in the division dealing with the budget process are responsible for the initiation, collation, analysis of information for budget process and preparing monthly financial performance reports to the Strategic Executive Director: Budget and Treasury Office for further review.

6. BUDGET PRINCIPLES

The council shall adopt three-year budget statements for the ensuing financial year's budgets. The budget statement shall be the focal point of the budget, and shall be linked to the IDP. The budget and IDP review process are to run concurrently.

6.1 Contents of Budget

- 6.1.1 The budget must comply with the provisions of Section 17(1) of the MFMA, and in particular:
- 6.1.1.1 The budget must be in the format prescribed by the regulations;
- 6.1.1.2 The budget must reflect the realistically expected revenues by major source for the budget year concerned;
- 6.1.1.3 The expenses reflected in the budget must be divided into the votes of the various departments of the municipality;
- 6.1.1.4 The budget must also contain:
- 6.1.1.4.1 the foregoing information for the two years immediately succeeding the financial year to which the budget relates;
- 6.1.1.4.2 the actual revenues and expenses for the previous financial year, and
- 6.1.1.4.3 the estimated revenues and expenses for the current year.

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6.1.2 The budget must be accompanied by all of the documents referred to in Section 17(3) of the MFMA.

11.3. For the purposes of Section 17(3)(k) of the MFMA, the salary, allowances and benefits of each person referred to therein must be stated individually.

6.2 Funding of Expenditure

6.2.1 The annual budget and adjustments budget shall, as required by Section 17(2) of the MFMA consist of:

- 6.2.1.1 the capital component, and
- 6.2.1.2 the operating component.

6.2.2 In accordance with the provisions of Section 18(1) of the MFMA, an annual budget may be funded only from:-

- 6.2.2.1 Realistically anticipated revenues to be collected;
- 6.2.2.2 Cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- 6.2.2.3 Borrowed funds, but only for capital projects.

6.2.3 Realistically anticipated revenues to be received from national or provincial government, national or public entities, other municipalities, municipal entities, donors or any other source may be included in an annual budget only if there is acceptable documentation that guarantees the funds, as provided by Regulation 10 (2) of the Regulations.

6.2.4 An impending operating **deficit** shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year, and shall not be offset against any unappropriated surplus carried forward from preceding financial years.

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6.3 ***Capital Budget***

Capital budget refers to the allocation made to specific infrastructure projects and purchase of equipment and other forms of assets having a life span of more than one year and cost value of as determined in the Asset Management Policy of the municipality.

6.3.1 *Basis of Calculation*

- 6.3.1.1 Except in so far as capital projects represent a contractual commitment to the Newcastle Municipality extending over more than one financial year, the annual capital budget shall be prepared from a **zero base**.
- 6.3.1.2 The capital budget component of the annual or adjustments budget shall only be approved by the council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.
- 6.3.1.3 The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
- 6.3.1.4 In addition, the council shall consider the likely impact of such operational expenses – net of any revenue expected to be generated by such item – on future property rates and service charges.

6.3.2 *Financing of Capital Budget*

- 6.3.2.1 The Strategic Executive Director: Budget and Treasury Office shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.

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- 6.3.2.2 The provisions of Regulation 11 of the Municipal Budgeting and Reporting Regulations of 2009 shall be complied with in relation to the funding of capital expenditure.
- 6.3.2.3 Any **surplus** from previous financial years not appropriated, even if fully cash-backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the Municipality's asset financing reserve.
- 6.3.2.4 Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact of the capital component on the present and future operating budgets of the municipality in relation to the items referred to in 6.3 below.
- 6.3.2.5 Each department head shall, prior to providing for any expenditure in respect of any capital item in the budget of his or her department's budget, and in any event no later than 31 January prepare and submit to the Strategic Executive Director: Budget and Treasury Office a business plan relating to such capital item, which business plan shall contain the following information regarding such item:
- A full description;
 - Its purpose;
 - The expected beneficiaries ;
 - Alternative means of providing the same benefits;
 - An acquisition, construction and implementation plan (as applicable);
 - The expected useful life;
 - The principal cost;
 - The sources of funding;
 - A schedule of financing costs;
 - A maintenance plan;
 - A schedule of maintenance costs;
 - A depreciation schedule; and
 - Insurance costs.

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6.4 ***Operational Budget***

Operational budget refers to the funds that would be raised in the delivery of basic service, grants and subsidies and any other municipal services rendered. These funds are in turn used to cover the expenses incurred in the day to day running of the municipality

The operating component shall duly reflect the impact of the capital component on:

- depreciation charges;
- repairs and maintenance expenses;
- interest payable on external borrowings; and
- other operating expenses.

6.4.1 *Basis of Calculation*

- 6.4.1.1 The incremental approach is used in preparing the annual operating budget in respect of employee costs, councillors remuneration, bulk purchases. All other expenditure shall be estimated using the zero based method of budgeting.
- 6.4.1.2 The annual operating budget shall be based on realistically anticipated revenue, which should at least cover the anticipated operating expenditure in order to result in a balanced budget.
- 6.4.1.3 An income based approach shall be used where the realistically anticipated income would be determined first and the level of operating expenditure would be based on the determined income, thus resulting in a balanced budget.

6.4.2 *Financing*

Services charges shall be based on the tariff growth rate as agreed upon plus a growth rate of the town. The operating budget shall be financed from the following sources:

- (a) Service Charges
 - (i) Property Rates;
 - (ii) Electricity sales;
 - (iii) Water sales;
 - (iv) Sewerage; and

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(v) Refuse

(b) Grants and Subsidies

Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the municipality.

(c) Interest on investments

The budget for interest and investment shall be in accordance with the Cash Management and Investment policy of the municipality.

(d) Interest on outstanding debtors

The budget for interest and investment shall be in accordance with the Credit Control and Debt Collection policy of the municipality.

(e) Fines

Fines shall be estimated based on the fines and summons issued in the previous financial year and any law enforcement measures implemented by the municipality.

(f) Licences

Licences shall be estimated based on estimated based on licences and rates granted by the municipality.

(g) Sundry revenue

Sundry revenue shall refer to any other revenue which does not fall in the ambit of any revenue source above. It shall be estimated based on the trends of the current or previous financial year.

(d) Repairs and Maintenance

The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the department in terms of repairing their assets. This percentage shall be equal to at least 8% of the total operating budget.

(e) Capital Expenses

Capital expenses refer to interest and redemption that has to be repaid on an external loan taken up by the Council. The budget for capital expenses will be determined by the repayments that the municipality is liable for based on the agreement entered into with the financial institution.

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(f) Contributions to Capital

A global amount that will be spent on the acquisition of small capital items is determined. The needs of departments in terms of small items will be prioritised to enable the allocation of funds for such items.

(g) Contributions to Funds

Refers to the contribution made to provisions (e.g. leave reserve fund) on annual basis and is determined based on the actual expenditure in the previous year and any other factor that could have an effect.

6.5 Provisions

6.5.1 *Accrued leave*

The Municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget, as well as for staff benefits, including post-retirement benefits.

6.5.2 *Provision for bad debts*

The Municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget with due regard to the implementation and compliance with the Credit Control and Debt Collection Policy.

6.5.2 *Obsolete and deteriorated stock*

The municipality shall establish and maintain a provision for the obsolescence and deterioration of stock in accordance with its stores management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

6.5.3 *Depreciation & Interest*

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All expenses, including depreciation expenses, shall be **cash-funded**. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.

Finance charges payable by the Municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the municipality.

The allocation of **interest earned** on the Municipality's investments shall be budgeted for in terms of the banking and investment policy.

The Municipality shall adequately provide in each annual and adjustments budget for the maintenance of its **fixed assets** in accordance with its fixed asset management policy. At least 8% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

The budget for **salaries, allowances and salaries-related benefits** shall be separately prepared, and shall not exceed 35% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other councillors shall be excluded from this limit.

7 BUDGET PROCESS

7.1 Medium Term Expenditure Revenue Framework

The Medium Term Expenditure Revenue Framework (MTERF) details 3 year rolling expenditure and revenue plan for Newcastle Municipality. The MTERF budget process is designed to match the overall resource envelop, estimated through “top-down” macroeconomic and fiscal policy process with the bottom up estimation of the current and medium term cost of existing departmental plans and expenditure programmes

The budget process allows the Council to:-

- (a) Strengthen and evaluate the alignment between medium and long-term plans and funding proposals;
- (b) Revise its policy priorities, macroeconomic framework and revenue envelop;

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- (c) Evaluate departmental plans and allocate available resources in line with the policy priorities;
- (d) Obtain the required authority from Council to spend (service delivery);
- (e) Align parameter settings with budget outcomes and resource allocations

7.2 Integrated Development Plan Formulation

The Integrated Development Plan (IDP) process is a process through which the municipality prepare strategic development plans for a five-year period. An IDP is one of the key instruments for local government to cope with its new developmental role and seeks to arrive at decisions on issues such as municipal budgets, land management, promotion of local economic development and institutional transformation in a consultative, systematic and strategic manner.

In order to ensure certain minimum quality standards of the IDP Review process and proper coordination between and within spheres of government, the municipality need to prepare an IDP review process plan and formulate a budget to implement the IDP. The IDP and Budget Process Plan has to include the following:

- (a) A programme specifying the timeframes for the different planning steps;
- (b) Appropriate mechanisms, processes and procedures for consultation and participation of local communities, organs of state, traditional authorities and other role players in the IDP review and budget formulation processes; and
- (c) Cost estimates for the review process.

The preparation of the IDP process plan is in essence the formulation of the IDP and Budget processes, set out in writing and requires the adoption by Council.

7.3 Legal planning context

The preparation of the IDP and Budget processes are regulated by the Municipal Systems Act, No 32 of 2000 and the Municipal Finance Management Act, No 56 of 2003. This is to ensure certain minimum quality standards of the integrated development planning and budget process and proper coordination between and within the spheres of government. As the IDP is a legislative requirement it has a legal status and it supersedes all other plans that guide development at local level.

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The Municipal Systems Act, No 32 of 2000 (as amended) and the Municipal Finance Management Act, No 56 of 2003 confer the responsibility on the Mayor to provide political guidance over the budget process and the priorities that must guide the preparation of the annual budgets. In terms of section 53 of the Municipal Finance Management Act the Mayor must also coordinate the annual revision of the integrated development plan in terms of section 34 of the Municipal Systems Act and the preparation of the annual budget, and determine how the integrated development plan is to be taken into account or revised for the purpose of the budget. The Municipal Systems Act further requires the following regarding the IDP process:

Chapter 5 and Section 25 (1) of the Municipal Systems Act (2000) indicate that the Council must, within a prescribed period after the start of its elected term, adopt a single, all inclusive and strategic plan for the development of the municipality which:-

- (a) Links integrates and coordinates plans and takes into account proposals for the development of the municipality;
- (b) Aligns the resources and capacity of the municipality with the implementation of the plan;
- (c) Complies with the provisions of this Chapter; and
- (d) Is compatible with national and provincial development plans and planning requirements binding on the municipality in terms of legislation.

7.4 Alignment between IDP, Budget and PMS

In terms of the Municipal Systems Act, municipalities are required to prepare an organisational performance management system that must be linked to the IDP. Tremendous progress has been made with the process of aligning the IDP, Budget and Performance Management System (PMS). Every endeavor is made to link and integrate these three processes to an even greater extent through the Process Plan. It should however, be noted that the PMS on its own requires an in-depth process comparable to that of the IDP. Such PMS is tightly linked and guided by the IDP and Budget processes. The PMS process will address the following issues:

- (a) Alignment of the PMS, Budget and IDP processes;
- (b) Implementation of an individual performance management system at managerial level.

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The IDP, performance management systems (PMS) and budget are all components of one overall development planning and management system. The IDP sets out what the municipality aims to accomplish and how it will do this. The PMS enables the municipality to check to what extent it is achieving its aims. The budget provides the resources that the municipality will use to achieve its aims. As indicated earlier, every attempt has been made in this process plan to align the IDP and PMS formulation and/or review, and the budget preparation process.

7.5 Medium Term Policy Review

- 7.5.1 The budget process starts early in the year with a review of the IDP and budget processes of the previous year.
- 7.5.2 The Strategic Executive Director: Budget and Treasury Office commences the process in July of each year by preparing a draft Medium Term Budget Statement. The Medium Term Budget Statement is a document that spells out the planning for the ensuing three years. This process also includes the review of the previous year's budget process and completion of the Budget Evaluation checklist.
- 7.5.3 The Strategic Executive Director: Budget and Treasury Office draws up a budget process plan with time schedule outlining key deadlines for preparing, tabling and approving the budget and reviewing the IDP and budget related policies and consultation process at least 10 months before the start of the budget year. This budget process plan is then incorporated into the main process plan which includes IDP and PMS as these processes go hand in hand.
- 7.5.4 The Strategic Executive Director: Budget and Treasury Office Services tables the draft Medium Term Budget Statement and the budget process plan to the MANCO (Accounting Officer and Strategic Executive Directors) for discussion. At this forum options and contracts for service delivery are reviewed.

7.6 August Activities

- 7.6.1 The draft Medium Term Budget Statement and the budget process plan are tabled at the Finance Portfolio Committee for consideration, input and recommendations to Exco.

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- 7.6.2 The Mayor tables at the Council meeting a time schedule outlining key deadlines for preparation, tabling and approving the budget.

7.7 September Activities

- 7.7.1 Budget and Treasury Office determine revenue projections and proposed rate and service charges and draft initial allocations to functions and departments for the next financial year after taking into account strategic objectives.
- 7.7.2 Budget and Treasury Office engages with the provincial, national sector departments and other national public entities on specific programmes for alignment with municipality plans.
- 7.7.3 The budget parameters are set with the Executive Committee, Budget Steering Committee, and Management Committee.

7.8 October Activities

The Strategic Executive Director: Budget and Treasury Office:-

- 7.8.1 reviews the national policies and budget plans and potential price increases of bulk resources.
- 7.8.2 determines revenue projections and policies.
- 7.8.3 engage with sector departments, share and evaluate plans, MTBPS.
- 7.8.4 draft initial allocations to functions.

7.9 November/December Activities

- 7.9.1 The Strategic Executive Director: Budget and Treasury Office consolidates budgets and plans.
- 7.9.2 The Budget Steering Committee reviews the consolidated budget and plans and prepare proposed budget.

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7.9.3 The Executive Committee determines the strategic choices for the ensuing three years and finalizes tariff policies.

7.10 January/February Activities

7.10.1 The Accounting Officer reviews proposed national and provincial allocations to the municipality for incorporation into the draft budget for tabling. Proposed national and provincial allocations for ensuing three years must be finalized not later than 20 January of each year.

7.10.2 The Strategic Executive Director: Budget and Treasury Office prepares detailed budgets and plans for the ensuing three years.

7.10.3 The Accounting Officer finalizes and submits to the Mayor the proposed budgets and plans for the ensuing three years taking into account the recent mid-year review and any corrective measures proposed as part of the oversight report for the previous year's audited annual financial statements and annual report.

7.10.4 The Mayor tables the budgets and plans at the Finance Portfolio and Executive Committee for their oversight function and recommendations to the Council.

7.11 March/April Activities

7.11.1 The Accounting Officer reviews any changes in the prices for bulk resources for publication not later than 15 March each year.

7.11.2 The Mayor tables the budget at the council meeting for deliberations and adoption not later than 31 March of each year.

7.11.3 Immediately after the budget has been tabled at the council meeting, the Accounting Officer must in accordance with Chapter 4 of the Municipal Systems Act make public the annual budget and the documents referred to in section 17 (3) of the MFMA. The Accounting Officer must invite the local community to submit representations in connections with the budget.

7.11.4 The Accounting Officer must submit the annual budget in both hard and soft copies to the National Treasury and KwaZulu-Natal Provincial Treasury.

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7.11.5 When the budget has been tabled, the municipal council must consider any views of the local community, National Treasury, KwaZulu-Natal Provincial Treasury and any provincial or national organs of state or municipalities which made submissions on the budget.

7.11.6 After considering all budget submissions, the council must give the Mayor an opportunity to respond to the submissions and if necessary, to revise the budget and table amendments for consideration by the council.

7.12 May Activities

The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget in accordance with Section 24 of the MFMA.

8 ADJUSTMENT BUDGET

8.1 Each adjustment budget shall reflect realistic excess, however nominal of current revenues over expenses.

8.2 Section 28(2) (d) of the MFMA provides that an adjustment budget may authorize utilization of projected savings in one vote towards spending in another vote. However, virements between the votes should only be permitted where the proposed shifts in funding facilitate sound risk and financial management.

8.3 The municipal council may revise an approved budget through an adjustment budget. In adjusting its approved budget the municipal council shall do it in accordance with Section 28 of the MFMA.

8.4 The Strategic Executive Director: Budget and Treasury Office shall ensure that the adjustment budgets comply with the requirements of the National Treasury and reflect the budget priorities determined by the Mayor, are aligned with the IDP, comply with all budget related policies, and shall make recommendations to the Mayor on the revision of the IDP and the budget related policies where these are necessary.

8.5 Any deviation from or adjustment to an annual budget or transfer within a budget which is not specifically permitted under this policy and MFMA provisions or MFMA circulars and

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guidelines issued by National Treasury from time to time or any other policy or the municipality is prohibited unless approved by the council through an adjustment budget.

8.6 Council may revise its annual budget by means of an adjustment budget only once per year.

8.7 The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

8.8 The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programme already budgeted for or any areas of critical importance identified by Council in compliance with the MFMA.

8.9 The Council shall in such adjustment budgets, and within the prescribed framework, confirms unforeseen and unavoidable expenses on the recommendation of the Mayor.

8.10 The Council should also authorize the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by Council.

9 BUDGET TRANSFERS & VIREMENTS

9.1 Restrictions

9.1.1 Virements from the capital budget to operating budget and virements towards personnel expenditure shall not be permitted.

9.1.2 Virements to and from the following items shall not be permitted

- (a) Bulk purchases;
- (b) Debt impairment;
- (c) Interest charges;
- (d) Depreciation;
- (e) Conditional Grants;
- (f) Revenue foregone;
- (g) Insurance; and
- (h) Value Added Tax

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- 9.1.3 This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy.
- 9.1.4 A transfer of funds between line items shall not be done if the effect thereof would result:-
 - 9.1.4.1 In alteration of the approved outcomes or outputs of the IDP;
 - 9.1.4.2 In any adjustment to the Service Delivery and Budget Improvement Implementation Plan;
 - 9.1.4.3 In any changes to the staff establishment of the municipality, except if the council approves such change.
- 9.1.5 Transfer for funds that have been specifically ring-fenced shall not be permitted.
- 9.1.6 Transfer of funds between or from capital items or projects.
- 9.1.7 To the extent that it is practical to do so, transfers within the first three months are not permitted.
- 9.1.8 Transfers may not be made from a line item administered by one department to a line items administered by another department.

9.2 Authorization of Virements

A transfer of funds from one line item to another under this policy may, subject to the provisions of this policy or MFMA or national MFMA circulars and guidelines which are issued by National Treasury from time to time authorized as follows:-

- 9.2.1 A request for virement of an amount not exceeding R100 000.00 may be approved by the by the Strategic Executive Director of the department in consultation with the Strategic Executive Director: Budget and Treasury Office.
- 9.2.2 A request for virement of an amount above R100 000 shall be the Executive Committee, having obtained budget comments from the Strategic Executive Director: Budget and Treasury Office.

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9.2.3 A transfer of funds from one item to another may take place only if savings within the first mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings.

9.3 Limitations of Amount of Virements

9.3.1 Notwithstanding the provisions of paragraph 9.2:-

9.3.1.1 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 20% of the amount allocated to that vote.

9.3.1.2 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 20% for the total operating budget for that year.

9.3.1.3 The amount of any single transaction relating to transfer of funds between the line items may not exceed the sum of R 100 000.00

9.3.2 A transfer which exceeds, or which would result in exceeding of any of the thresholds referred to in paragraph 9.3.1 above may, however, be authorized through a Executive Committee resolution.

10 BUDGET IMPLEMENTATION

10.1 Monitoring

10.1.1 The Accounting Officer with the assistance of the Strategic Executive Director: Budget and Treasury Office and other Strategic Executive Directors is responsible for the implementation of the budget, and must take reasonable steps to ensure that:-

10.1.1.1 Funds are spent in accordance with the budget, expenses are reduced if expected revenues are less than projected and revenues and expenses are properly monitored

10.1.2 The Accounting Officer with the assistance of the Strategic Executive Director: Budget and Treasury Office must prepare any adjustment budget when such budget is necessary and submit it to the Mayor for consideration and tabling to Council.

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10.1.3 The Accounting Officer must report in writing to the Council any impending shortfalls in the Annual Revenue Budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

11 REPORTING

The Accounting Officer shall report on quarterly basis all transfers to the Mayor, Finance Portfolio and Executive Committees.

11.1 Monthly Budget Statements

11.1.1 The Accounting Officer with the assistance of the Strategic Executive Director: Budget and Treasury Office must, not later than ten working days after the end of each calendar month, submit to the Mayor, Finance Portfolio and Executive Committees, KwaZulu-Natal Provincial Treasury and National Treasury a report in the prescribed format on the state of the Municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the Financial Year to date. This report must reflect the following:-

- (a) Actual revenues per source, compared with budgeted revenues;
- (b) Actual expenses per vote, compared with budgeted expenses;
- (c) Actual Capital Expenditure per vote, compared with budgeted expenses;
- (d) Actual borrowings, compared with the borrowings envisaged to fund the Capital Budget;
- (e) The amount of allocations received, compared with the budgeted amount;
- (f) Actual expenses against allocations, but excluding expenses in respect of equitable share;
- (g) Explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the Service Delivery and Budget Implementation Plan;
- (h) The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- (i) Projections of the Revenues and Expenses for the remainder of the Financial Year, together with an indication of how and where the original projections have been revised.

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- 11.1.2 The report to the National Treasury must be both in electronic and signed hard copies.

11.2 Quarterly Reports

The Mayor must submit to the Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

11.3 Mid-Year Budget and Performance Assessment

- 11.4 The Accounting Officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the Service Delivery Performance of the municipality as against the Service Delivery Targets and Performance Indicators which are set in the Service Delivery and Budget Implementation Plan.
- 11.5 The Accounting Officer must then submit a report on such assessment to the Mayor by 25 January of each year and to Finance Portfolio and Executive Committees, Council, KwaZulu-Natal Provincial Treasury and National Treasury by 31 January of each year.
- 11.6 The Accounting Officer may in such report make recommendations after considering the recommendation of the Strategic Executive Director: Budget and Treasury Office for adjusting the annual budget through adjustment budget and for revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan

12 UNSPENT FUNDS & ROLLOVER OF BUDGET

- 12.1 The appropriation of funds in an annual or adjustment budget will lapse to the extent that they are spent by the end of the relevant budget year, but except for funds relating to Capital Expenditure.
- 12.2 Only unspent grants (if conditions for such grant funding allows that) or loan funded Capital Budget may be rolled over to the next budget year.
- 12.3 Conditions of the grant fund shall be taken into account in applying for such rollover of funds.

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- 12.4 Application for rollover of funds shall be forwarded to the budget office no later than 30th of April each year to be included in the following year's budget for adoption by Council in May each year.
- 12.5 Budget adjustments to be rolled over shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.
- 12.6 No funding for projects funded from the Capital Replacement Reserves shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (31 March each year) prior the end of that particular financial year.
- 12.7 No unspent operating budget shall be rolled over to the next budget year.

13 IMPLEMENTATION OF THIS POLICY

- 13.1 The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director: Budget and Treasury Office.
- 13.2 The policy shall be reviewed on annual basis and updated if there are any changes brought about through an amendment of any legislation and/or policies by National Treasury or arrangement within the municipality.

The Accounting Officer must place on the municipality's official website the following:-

- (a) The Annual and Adjustment Budgets and all budget related documents;
- (b) All budget related policies;
- (c) The Integrated Development Plan;
- (d) The Annual Report;
- (e) All Performance Agreement of Section 57 Managers;
- (f) All long-term borrowing contracts;
- (g) All Service Delivery Agreements;
- (h) All quarterly and mid-year term reports submitted to the Council on the implementation of the budget and the financial state of the municipality.

- 13.3 This policy must be read together with the Funding and Reserves and Borrowing Policies; Local Government Municipal Finance Management Act, Act 56 of 2003; and

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Local Government Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.

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